

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan  
*29-1110*  
GENERAL PURPOSE FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

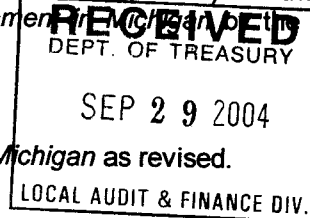
Year Ended March 31, 2004

# AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of North Star	<b>County</b> Gratiot
<b>Audit Date</b> March 31, 2004	<b>Opinion Date</b> August 17, 2004	<b>Date Accountant Report Submitted to State:</b> August 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan, as issued by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |  |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).   |

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686		<b>City</b> Bay City	<b>State</b> MI
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.		<b>Zip</b> 48707	

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

August 17, 2004

To the Township Board  
Township of North Star  
Gratiot County, Michigan

We have audited the accompanying general purpose financial statements of the Township of North Star, Gratiot County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of North Star's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of North Star, Gratiot County, Michigan, as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types, for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of North Star, Gratiot County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

EXHIBIT A

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Agency</u>
<u>Assets</u>				
Cash in bank	48 919 80	497 26	68 851 10	8 55
Taxes receivable	3 241 46	1 736 00	1 946 59	-
Accounts receivable	-	-	14 418 40	-
Due from other funds	8 55	-	-	-
Land	-	-	-	-
Buildings	-	-	-	-
Equipment	-	-	-	-
Amount to be provided for retirement of long-term debt	-	-	-	-
Total Assets	<u>52 169 81</u>	<u>2 233 26</u>	<u>85 216 09</u>	<u>8 55</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Due to other funds	-	-	-	8 55
Note payable	-	-	-	-
Bonds payable	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>8 55</u>
Fund equity:				
Investment in general fixed assets	-	-	-	-
Retained earnings – unreserved	-	-	85 216 09	-
Fund balances:				
Unreserved:				
Undesignated	52 169 81	2 233 26	-	-
Total fund equity	<u>52 169 81</u>	<u>2 233 26</u>	<u>85 216 09</u>	<u>-</u>
Total Liabilities and Fund Equity	<u>52 169 81</u>	<u>2 233 26</u>	<u>85 216 09</u>	<u>8 55</u>

The accompanying notes are an integral part of these financial statements.

<u>Account Groups</u>		<u>Total</u>
<u>General</u>	<u>General Long-</u>	<u>(Memorandum</u>
<u>Fixed Assets</u>	<u>Term Debt</u>	<u>Only)</u>
-	-	118 276 71
-	-	6 924 05
-	-	14 418 40
-	-	8 55
29 383 00	-	29 383 00
180 995 82	-	180 995 82
11 371 97	-	11 371 97
<u>-</u>	<u>435 264 85</u>	<u>435 264 85</u>
<u>221 750 79</u>	<u>435 264 85</u>	<u>796 643 35</u>
-	-	8 55
-	130 264 85	130 264 85
-	305 000 00	305 000 00
<u>-</u>	<u>435 264 85</u>	<u>435 273 40</u>
221 750 79	-	221 750 79
-	-	85 216 09
-	-	54 403 07
<u>221 750 79</u>	<u>-</u>	<u>361 369 95</u>
<u>221 750 79</u>	<u>435 264 85</u>	<u>796 643 35</u>

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B

Page 1

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Revenues:			
Property taxes	33 679 63	20 646 52	54 326 15
State revenue sharing	72 230 00	-	72 230 00
Charges for services:			
Fire and rescue runs	-	2 250 00	2 250 00
Property tax administration	7 499 37	-	7 499 37
Interest	267 98	9 16	277 14
Miscellaneous	<u>4 743 76</u>	<u>-</u>	<u>4 743 76</u>
Total revenues	<u>118 420 74</u>	<u>22 905 68</u>	<u>141 326 42</u>
Expenditures:			
Legislative:			
Township Board	5 393 18	-	5 393 18
General government:			
Supervisor	6 455 23	-	6 455 23
Assessor	3 550 00	-	3 550 00
Clerk	7 260 83	-	7 260 83
Board of Review	450 00	-	450 00
Treasurer	8 583 68	-	8 583 68
Building and grounds	8 667 49	-	8 667 49
Public safety:			
Fire protection	-	33 149 74	33 149 74
Public works:			
Highways and streets	22 324 16	-	22 324 16
Street lighting	1 571 31	-	1 571 31
Drains	6 577 75	-	6 577 75
Other:			
Insurance	2 855 00	-	2 855 00
Payroll taxes	2 100 13	-	2 100 13
Capital outlay	1 500 00	-	1 500 00
Debt service	<u>14 304 96</u>	<u>-</u>	<u>14 304 96</u>
Total expenditures	<u>91 593 72</u>	<u>33 149 74</u>	<u>124 743 46</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B  
Page 2

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Excess (deficiency) of revenues over expenditures	<u>26 827 02</u>	<u>(10 244 06)</u>	<u>16 582 96</u>
Other financing sources (uses):			
Operating transfers in	-	6 000 00	6 000 00
Operating transfers out	<u>(6 000 00)</u>	<u>-</u>	<u>(6 000 00)</u>
Total other financing sources (uses)	<u>(6 000 00)</u>	<u>6 000 00</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	20 827 02	(4 244 06)	16 582 96
Fund balances, April 1	<u>31 342 79</u>	<u>6 477 32</u>	<u>37 820 11</u>
Fund Balances, March 31	<u>52 169 81</u>	<u>2 233 26</u>	<u>54 403 07</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –  
GENERAL AND SPECIAL REVENUE FUNDS

Year Ended March 31, 2004

EXHIBIT C  
Page 1

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	17 500 00	33 679 63	16 179 63
State revenue sharing	77 000 00	72 230 00	(4 770 00)
Charges for services:			
Fire and rescue runs	-	-	-
Property tax administration	6 250 00	7 499 37	1 249 37
Interest	700 00	267 98	(432 02)
Miscellaneous	850 00	4 743 76	3 893 76
Total revenues	<u>102 300 00</u>	<u>118 420 74</u>	<u>16 120 74</u>
Expenditures:			
Legislative:			
Township Board	6 000 00	5 393 18	(606 82)
General government:			
Supervisor	8 325 00	6 455 23	(1 869 77)
Assessor	3 800 00	3 550 00	(250 00)
Clerk	7 400 00	7 260 83	(139 17)
Board of Review	500 00	450 00	(50 00)
Treasurer	9 350 00	8 583 68	(766 32)
Building and grounds	8 725 00	8 667 49	(57 51)
Public safety:			
Fire protection	-	-	-
Public works:			
Highways and streets	23 300 00	22 324 16	(975 84)
Street lighting	1 700 00	1 571 31	(128 69)
Drains	8 000 00	6 577 75	(1 422 25)
Culture and recreation:			
Cemetery	500 00	-	(500 00)
Other:			
Insurance	3 000 00	2 855 00	(145 00)
Payroll taxes	2 150 00	2 100 13	(49 87)
Contingency	12 050 00	-	(12 050 00)
Capital outlay	1 500 00	1 500 00	-
Debt service	-	14 304 96	14 304 96
Total expenditures	<u>96 300 00</u>	<u>91 593 72</u>	<u>(4 706 28)</u>

The accompanying notes are an integral part of these financial statements.

Special Revenue Fund

<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
19 600 00	20 646 52	1 046 52
-	-	-
500 00	2 250 00	1 750 00
-	-	-
100 00	9 16	(90 84)
-	-	-
<u>20 200 00</u>	<u>22 905 68</u>	<u>2 705 68</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
27 954 00	33 149 74	5 195 74
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>27 954 00</u>	<u>33 149 74</u>	<u>5 195 74</u>

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –  
GENERAL AND SPECIAL REVENUE FUNDS  
Year Ended March 31, 2004

EXHIBIT C  
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	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Excess (deficiency) of revenues over expenditures	<u>6 000 00</u>	<u>26 827 02</u>	<u>20 827 02</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	<u>(6 000 00)</u>	<u>(6 000 00)</u>	<u>-</u>
Total other financing sources (uses)	<u>(6 000 00)</u>	<u>(6 000 00)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	20 827 02	20 827 02
Fund balances, April 1	<u>20 000 00</u>	<u>31 342 79</u>	<u>11 342 79</u>
Fund Balances, March 31	<u>20 000 00</u>	<u>52 169 81</u>	<u>32 169 81</u>

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Fund</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<u>(7 754 00)</u>	<u>(10 244 06)</u>	<u>(2 490 06)</u>
6 000 00	6 000 00	-
-	-	-
<u>6 000 00</u>	<u>6 000 00</u>	<u>-</u>
(1 754 00)	(4 244 06)	(2 490 06)
<u>1 472 00</u>	<u>6 477 32</u>	<u>5 005 32</u>
<u>(282 00)</u>	<u>2 233 26</u>	<u>2 515 26</u>

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
RETAINED EARNINGS – ALL PROPRIETARY FUND TYPES      EXHIBIT D  
Year Ended March 31, 2004

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
Operating revenues:	
Charges for services	35 755 58
Total operating revenues	<u>35 755 58</u>
Operating expenses:	
Supplies	688 98
Repairs and maintenance	7 535 39
Utilities	1 232 67
Total operating expenses	<u>9 457 04</u>
Operating income	<u>26 298 54</u>
Non-operating income:	
Interest income	640 55
Debt service expense	<u>(28 295 00)</u>
Net non-operating income	<u>(27 654 45)</u>
Net income (loss)	(1 355 91)
Retained earnings, April 1	<u>86 572 00</u>
Retained Earnings, March 31	<u>85 216 09</u>

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
RETAINED EARNINGS – ALL PROPRIETARY FUND TYPES

EXHIBIT D

Year Ended March 31, 2004

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
Cash flows from operating activities:	
Cash received from customers	36 422 05
Cash payment to suppliers for services	<u>(9 457 04)</u>
Net cash provided (used) for operating activities	<u>26 965 01</u>
Cash flows from capital and related financing activities:	
Principal paid on general long-term debt	(10 000 00)
Interest paid on general long-term debt	(17 895 00)
Fees paid on general long-term debt	<u>(400 00)</u>
Net cash provided (used) for capital and related financing activities	<u>(28 295 00)</u>
Cash flow from investing activities:	
Interest income	<u>640 55</u>
Net cash provided (used) for investing activities	<u>640 55</u>
Net increase (decrease) in cash and cash equivalents	(689 44)
Cash and cash equivalents, April 1	<u>69 540 54</u>
Cash and Cash Equivalents, March 31	<u><u>68 851 10</u></u>
Reconciliation of operating income to net cash provided (used) for operating activities:	
Operating income	26 298 54
Increase (decrease) in assets and liabilities:	
Accounts receivable	<u>666 47</u>
Net Cash Provided (Used) for Operating Activities	<u><u>26 965 01</u></u>

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of North Star, Gratiot County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of North Star. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Enterprise Fund

The Enterprise Fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Account Groups

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

General Long-Term Debt Account Group

This account group accounts for the general long-term debt of the local unit.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present revenues and expenses in net total assets. The accrual basis of accounting is utilized by the proprietary fund types. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related fund liability is incurred.



TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was 2.4766 mills and the taxable value was \$21,866,101.00.

Fixed Assets

Purchases of fixed assets for all funds other than the sewer fund, are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles. Property, plant and equipment, in the Sewer Fund, is stated at cost. Additions, improvements and major replacements are capitalized at cost. Maintenance, repairs and minor replacements are charged to expense as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>118 276 71</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>23 191 20</u>
Total Deposits	<u>123 191 20</u>

The Township of North Star did not have any investments as of March 31, 2004.

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

**Note 3 – Changes in General Fixed Assets**

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land	29 383 00	-	-	29 383 00
Buildings	180 995 82	-	-	180 995 82
Equipment	9 871 97	1 500 00	-	11 371 97
Total	<u>220 250 79</u>	<u>1 500 00</u>	<u>-</u>	<u>221 750 79</u>

**Note 4 – Changes in General Long-Term Debt**

A summary of changes in general long-term debt follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/04</u>
Township hall note payable	137 007 02	-	6 742 17	130 264 85
Gratiot County Sewer	315 000 00	-	10 000 00	305 000 00
Total	<u>452 007 02</u>	<u>-</u>	<u>16 742 17</u>	<u>435 264 85</u>

**Note 5 – Township Hall Note Payable**

During 2002, the Township obtained a \$155,490.00 loan from Farmers State Bank to finance a new township hall. The loan is repayable in annual payments of \$14,304.96 including interest at the rate of 5.52% per annum. As of March 31, 2004, the principal balance outstanding on the loan was \$130,264.85 and it is recorded in the General-Long Term Debt Account Group and is as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
3-20-05	\$7 114 34	5.52%
3-20-06	7 507 05	5.52%
3-20-07	7 921 44	5.52%
3-20-08	8 358 70	5.52%
3-20-09	8 820 11	5.52%
3-20-10	9 306 97	5.52%
3-20-11	9 820 72	5.52%
3-20-12	10 362 82	5.52%

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 5 – Township Hall Note Payable (continued)

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
3-20-13	10 934 85	5.52%
3-20-14	11 538 46	5.52%
3-20-15	12 175 38	5.52%
3-20-16	12 847 46	5.52%
3-20-17	<u>13 556 55</u>	5.52%
Total	<u>\$130 264 85</u>	

Note 6 – Gratiot County Sewer Bonds Payable

On August 1, 1996, Gratiot County issued \$345,000.00 of its bonds to finance a sewage disposal system within the Township. The sewage system is owned by the County until the bonds are paid off. The Township is required to make annual principal payments and semi-annual interest payments on the bonds. As of March 31, 2004, the principal balance outstanding on the bonds was \$305,000.00 and it is recorded in the General Long-Term Debt Account Group and is as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
5-1-04	\$10 000 00	5.00%
5-1-05	10 000 00	5.10
5-1-06	10 000 00	5.20
5-1-07	10 000 00	5.30
5-1-08	10 000 00	5.40
5-1-09	10 000 00	5.50
5-1-10	15 000 00	5.60
5-1-11	15 000 00	5.70
5-1-12	15 000 00	5.80
5-1-13	15 000 00	5.80
5-1-14	15 000 00	5.90
5-1-15	20 000 00	5.90
5-1-16	20 000 00	6.00
5-1-17	20 000 00	6.00
5-1-18	20 000 00	6.00
5-1-19	20 000 00	6.00

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 6 – Gratiot County Sewer Bonds Payable (continued)

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
5-1-20	20 000 00	6.00
5-1-21	25 000 00	6.00
5-1-22	<u>25 000 00</u>	6.00
Total	<u>\$305 000 00</u>	

Note 7 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>8 55</u>	Current Tax Collection	<u>8 55</u>
Total	<u>8 55</u>	Total	<u>8 55</u>

Note 8 – Retirement Plan

The Township does not have a retirement plan.

Note 9 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 – Transfers In and Transfers Out

For the fiscal year ended, March 31, 2004, the Township made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Fire	<u>6 000 00</u>	General	<u>6 000 00</u>
Total	<u>6 000 00</u>	Total	<u>6 000 00</u>

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 11 – Building Permits

The Township does not issue building permits. Building permits are issued by the County of Gratiot.

Note 12 – Budget Variances

Township expenditures exceeded budgeted amounts during the fiscal year ended March 31, 2004, as follows:

<u>Fund/Activity:</u>	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Debt Service	-	14 304 96	14 304 96
Fire Fund:			
Fire protection	27 954 00	33 149 74	5 195 74

Note 13 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT F  
Page 1

Township Board:

Wages	2 088 51
Supplies	2 791 49
Miscellaneous	<u>513 18</u>
	<u>5 393 18</u>

Supervisor:

Salary	5 000 00
Supplies	988 01
Education	<u>467 22</u>
	<u>6 455 23</u>

Assessor:

Wages	3 500 00
Miscellaneous	<u>50 00</u>
	<u>3 550 00</u>

Clerk:

Salary	5 500 00
Deputy	800 00
Supplies	324 83
Miscellaneous	<u>636 00</u>
	<u>7 260 83</u>

Board of Review:

Wages	<u>450 00</u>
-------	---------------

Treasurer:

Salary	5 500 00
Deputy	800 00
Supplies	2 010 81
Mileage	13 87
Miscellaneous	<u>259 00</u>
	<u>8 583 68</u>

Building and grounds:

Contracted services	2 912 91
Repairs and maintenance	1 250 25
Utilities	2 913 11
Miscellaneous	<u>1 591 22</u>
	<u>8 667 49</u>

Highways and streets

22 324 16

Street lighting

1 571 31



TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT F  
Page 2

Drains	<u>6 577 75</u>
Insurance	<u>2 855 00</u>
Payroll taxes	<u>2 100 13</u>
Capital outlay	<u>1 500 00</u>
Debt service	<u>14 304 96</u>
Total Expenditures	<u>91 593 72</u>

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

CURRENT TAX COLLECTION FUND STATEMENT OF  
CHANGES IN ASSETS AND LIABILITIES  
Year Ended March 31, 2004

EXHIBIT G

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>CURRENT TAX COLLECTION FUND</u>				
<u>Assets</u>				
Cash in bank	<u>101 66</u>	<u>540 045 75</u>	<u>540 138 86</u>	<u>8 55</u>
Total Assets	<u>101 66</u>	<u>540 045 75</u>	<u>540 138 86</u>	<u>8 55</u>
<u>Liabilities</u>				
Due to other funds	<u>101 66</u>	<u>71 678 26</u>	<u>71 771 37</u>	<u>8 55</u>
Due to others	<u>-</u>	<u>468 367 49</u>	<u>468 367 49</u>	<u>-</u>
Total Liabilities	<u>101 66</u>	<u>540 045 75</u>	<u>540 138 86</u>	<u>8 55</u>

TOWNSHIP OF NORTH STAR  
Gratiot County, Michigan

CURRENT TAX COLLECTION FUND STATEMENT  
OF CASH RECEIPTS AND DISBURSEMENTS  
Year Ended March 31, 2004

EXHIBIT H

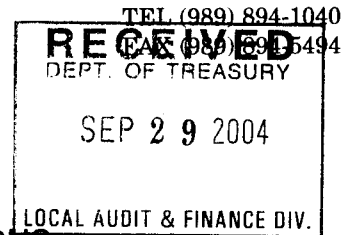
Cash in bank – beginning of year	<u>101 66</u>
Cash receipts:	
Property tax	534 683 76
Property tax administration fees	5 279 32
Interest	<u>82 67</u>
Total cash receipts	<u>540 045 75</u>
Total beginning balance and cash receipts	<u>540 147 41</u>
Cash disbursements:	
Township General Fund	38 730 22
Township Fire Fund	20 200 03
Township Sewer Fund	12 841 12
Ithaca Public Schools	83 181 98
Ashley Community Schools	15 846 02
Gratiot County	369 249 73
Refunds	<u>89 76</u>
Total cash disbursements	<u>540 138 86</u>
Cash in Bank – End of Year	<u><u>8 55</u></u>

# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707



## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

August 17, 2004

To the Township Board  
Township of North Star  
Gratiot County, Michigan

We have audited the financial statements of the Township of North Star, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of North Star in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board  
Township of North Star  
Gratiot County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board  
Township of North Star  
Gratiot County, Michigan

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of North Star will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

#### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants